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RUEHCV/AMEMBASSY CARACAS PRIORITY 3114
RUEHLP/AMEMBASSY LA PAZ JUL 1142
RUEHPE/AMEMBASSY LIMA PRIORITY 2720
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C O N F I D E N T I A L QUITO 000683

SIPDIS

TREASURY FOR MEWENS
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TAGS: [EPET](#) [ECON](#) [EINV](#) [PREL](#) [EC](#)
SUBJECT: NEW REFINERY WITH CHAVEZ A PIE IN THE SKY?

REF: 07 QUITO 1900

Classified By: Acting Deputy Chief of Mission Nan Fife for Reasons 1.4(b) and (d)

¶1. (C) Summary: Almost a year after Venezuelan and Ecuadorian state oil companies PDVSA and Petroecuador signed an MOU to jointly build a new refinery on Ecuador's coast, Chavez and Correa met July 15 to finalize agreement on the project. Still no mention has been made of financing for the \$6 billion project, and location and capacity could be problematic. End Summary.

Heads of State Inaugurate Project

¶2. (C) Almost a year after Venezuelan and Ecuadorian state oil companies PDVSA and Petroecuador signed an MOU to jointly build a new refinery on the coast of Manabi province (reftel), Chavez and Correa met to finalize agreement on the project. The two presidents traveled to Manta, Manabi Province, on July 15 to sign an agreement constituting the joint company and to unveil a plaque that would inaugurate the project. It is telling that they did not "lay the first brick" (you have problems again with slanted quotation marks throughout cable) of the refinery but instead unveiled a plaque, as the exact location for the refinery may yet change.

¶3. (SBU) The "Eloy Alfaro Refinery" would have an estimated refining capacity of 300,000 barrels per day (bpd) of crude oil. In addition to a refinery, the GOE now reports that the project would also offer a petrochemical plant to produce plastics, creams, and agrochemicals, among other products. With this addition, the projected cost has increased from \$5 to \$6 billion. Last year, the Petroecuador office responsible for the project estimated that, provided financing was forthcoming, construction could start in 2008 or 2009. Now the GOE is calling for 2 years for feasibility and environmental studies before building could begin (construction would take 3-4 years).

Community Opposition

¶4. (C) The refinery is to be built in the El Aromo area of Manabi, 25 minutes southeast of Manta. Although some residents are hopeful of jobs from the refinery, many are concerned about potential environmental contamination. Few seem reassured by promises of "strict environmental controls" by the joint company. Petroecuador has a dismal track record on environmental protection. According to press reports, Petroecuador spilled oil 226 times in 2006 alone; 177 of

these leaks were caused by corroded pipes and faulty installations and 46 by sabotage of pipelines. Another issue is water supply. The El Aromo area is reportedly quite dry. According to one petroleum industry contact, the amount of water needed to cool the boilers in the refinery would cause a shortage of water in the neighboring community. He believes the location was chosen to try and show Correa's support for the coast, but that Manabi residents will never support the refinery.

Capacity Issues

¶15. (C) Petroecuador, with current production around 250,000 bpd, refines approximately 170,000 bpd in Ecuador's three existing refineries. Capacity in those refineries is about 255,000 bpd (inefficiency is cited as a key reason for the underutilization of capacity). One petroleum industry expert ran numbers and estimated that Petroecuador could increase production by 150,000 bpd from existing and potential fields. However, even if the additional 150,000 bpd were processed in the new refinery instead of using existing excess capacity, Ecuador would be nowhere near the additional 300,000 bpd that would be available (although Venezuela has mentioned sending its crude to Ecuador for refining). In addition, Petroecuador would need to build a pipeline from the oil fields down to Manabi as no pipeline currently exists.

Financing Still a Mystery

¶16. (C) Venezuela's Ambassador to Ecuador commented that the refinery is one of Venezuela's largest foreign investments, but there has been no mention of money to date. The MOU signed last year ignored the issue of financing altogether. At that time, the Petroecuador project office estimated the GOE might be able to provide \$1 million, but doubted either Venezuela or the GOE had sufficient funds to finance construction.

COMMENT

¶17. (C) Although industry experts still believe the refinery project is a political gesture more than a realistic development, Correa and Chavez are promoting it publicly. Now Nicaragua may be involved as well, although its role is unclear. Correa announced that Ministers of Planning from Venezuela, Nicaragua, and Ecuador will meet in Quito July 28 to coordinate development plans for the refinery. Making the project even more political, Correa commented in his Saturday radio address July 19 that China and Iran are interested in the refinery. However, financing, community opposition and location issues, and capacity appear to be problematic, and analysts question inaugurating the project prior to feasibility and environmental studies.

CDA Griffiths